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Forbes

DESIGNER/ RETAILER RALPH LAUREN

CAN HE HAVE IT BOTH WAYS?

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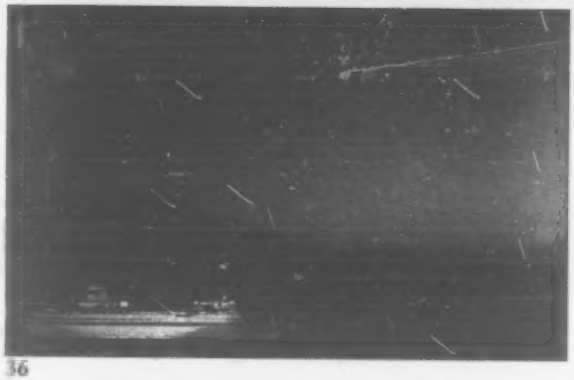

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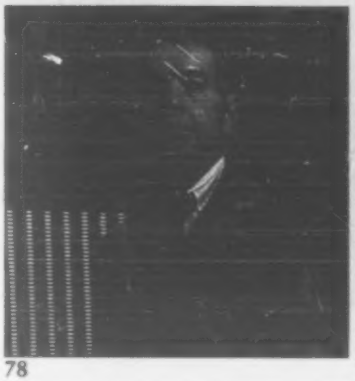

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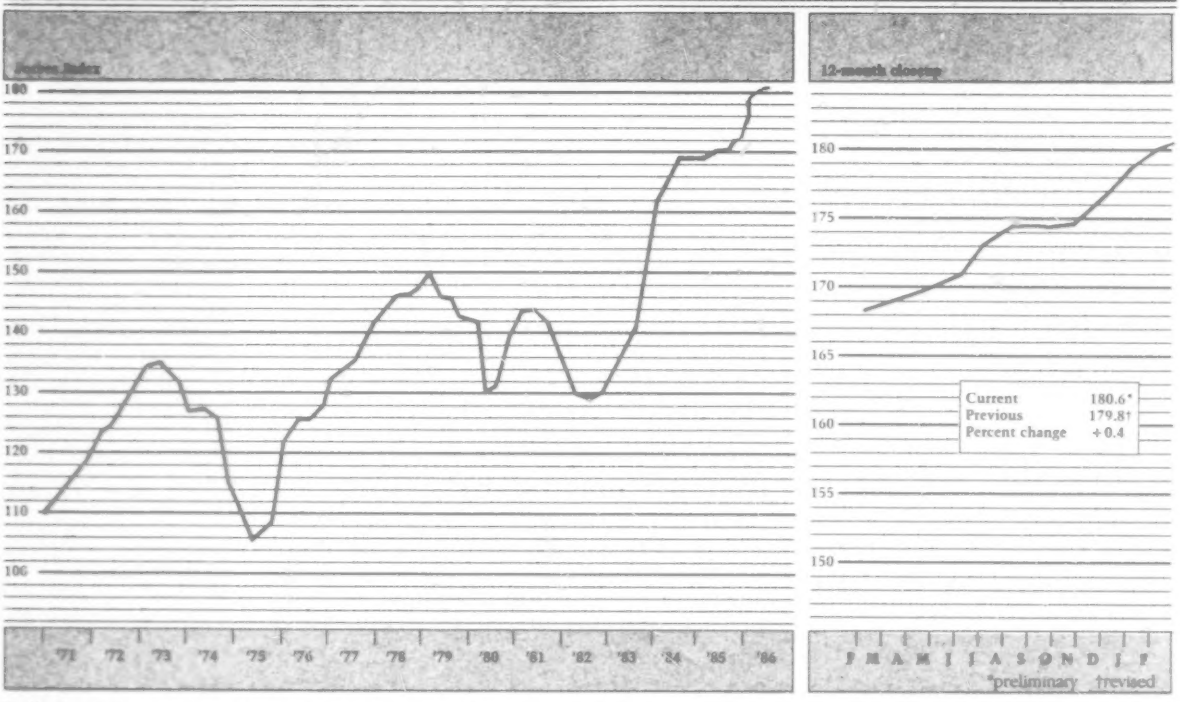
Cover photo by Bruce Weber

The Forbes Index



Deflation—for a month. The Consumer Price Index dropped 0.3% January to February. The drop, the steepest in 30 years, reflects tumbling oil and food prices. But the CPI services component increased 0.4%, primarily because of higher medical and entertainment costs. If oil and food prices merely level off, then, inflation will resume.

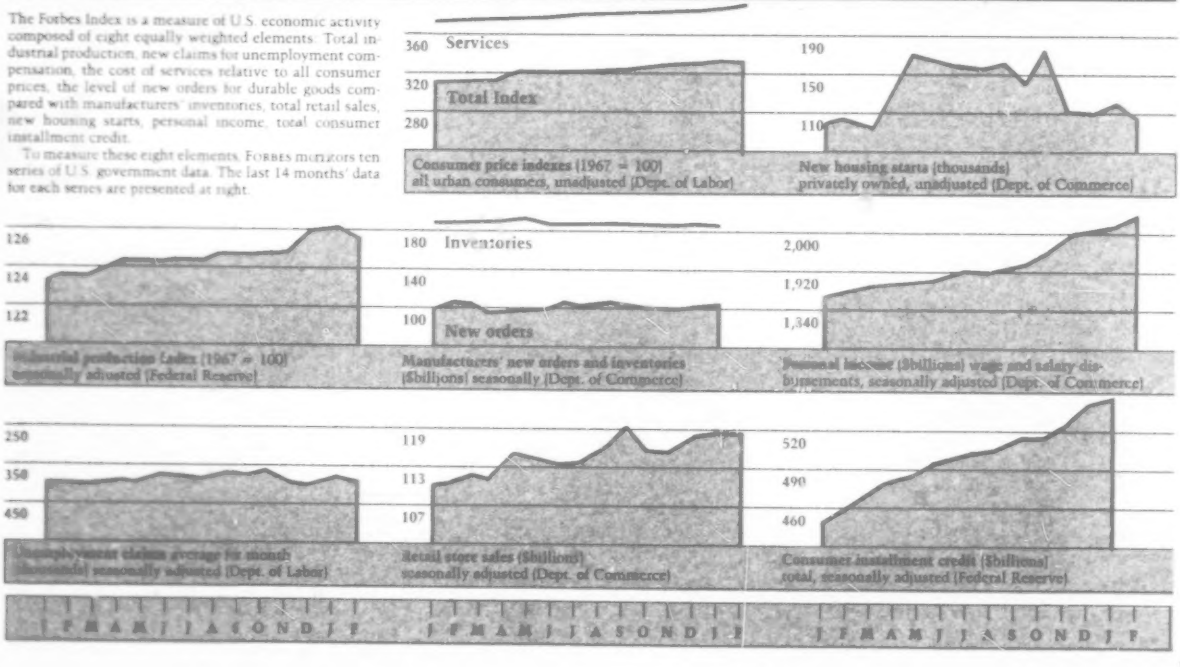
Personal income rose 0.5%, the biggest month-to-month jump since November. The rise helped push The Forbes Index to a 0.4% gain, the twelfth consecutive month of gains.

New housing starts fell 9.2% during the latest reporting period, but, nevertheless, remained 11.3% higher than during the same month last year. The dramatic decline in long-term interest rates has helped here.

The Forbes Index Components

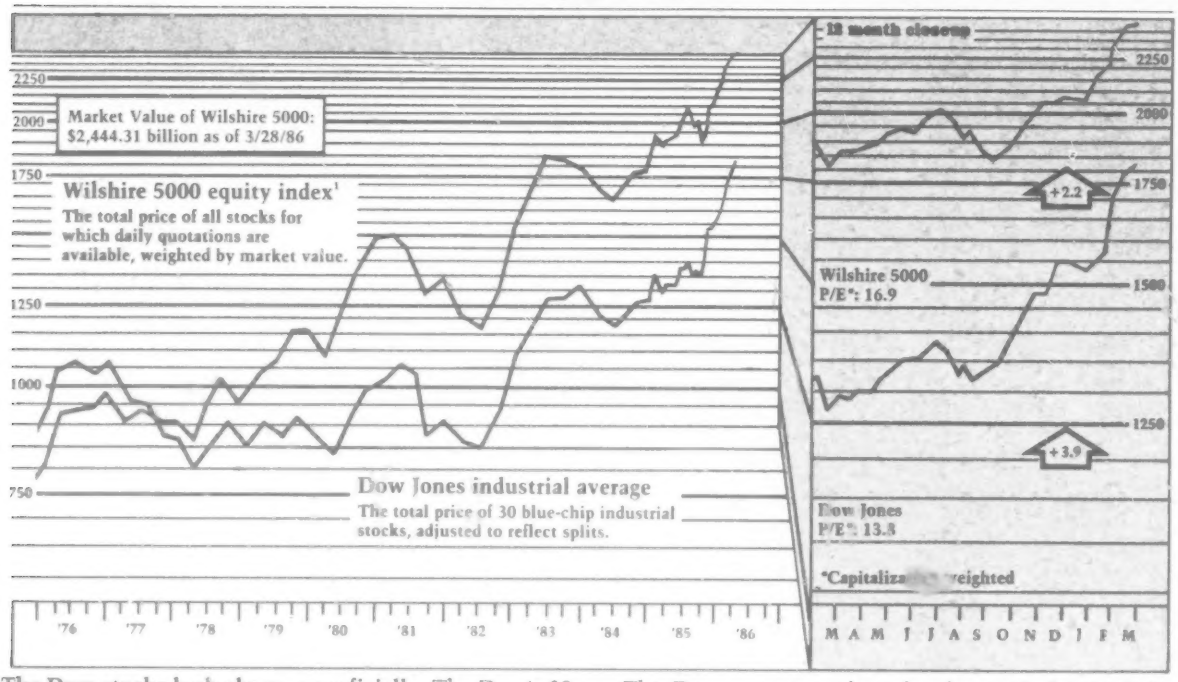
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market Value of Wilshire 5000: $2,444.31 billion as of 3/28/86
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
2250
2000
1750
1250
1000
750
'76 '77 '78 '79 '80 '81 '82 '83 '84 '85 '86
12 month closeup
+2.2
Wilshire 5000 P/E*: 16.9
+3.9
Dow Jones P/E*: 13.8
*Capitalization weighted
M A M J J A S O N D J F M

The Dow stocks look cheap, superficially. The Dow's 30 issues are selling at 13.8 times latest 12-month earnings. That multiple compares with 16.9 for the Wilshire index of 5,700 stocks. Does this mean Dow stocks are cheap?

Not necessarily. The 30 industrials may have poorer growth prospects than secondary issues. The DJIA includes three depressed oil stocks (Chevron, Exxon and Texaco) and GM, all selling at no more than 9 times earnings.

The Dow, moreover, has already raced ahead of the market as a whole, having risen 45% in the last 52 weeks, vs. 33% for Wilshire. Among the hottest Dow stocks: Woolworth, up 87%, where earnings are rebounding since a 1982 restructuring, and Westinghouse, up 81%, which is going to make a fat profit on the sale of its cable business.

Over the past year the NYSE index was up 32% and the Nasdaq, 34%. The standout laggard was the Amex index, up only 18%.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	5.2	5.2	6.3	5.5	5.5	4.3
in last 52 weeks	32.7	34.8	44.5	32.4	18.3	34.2

Stock performance based on six key investor yardsticks

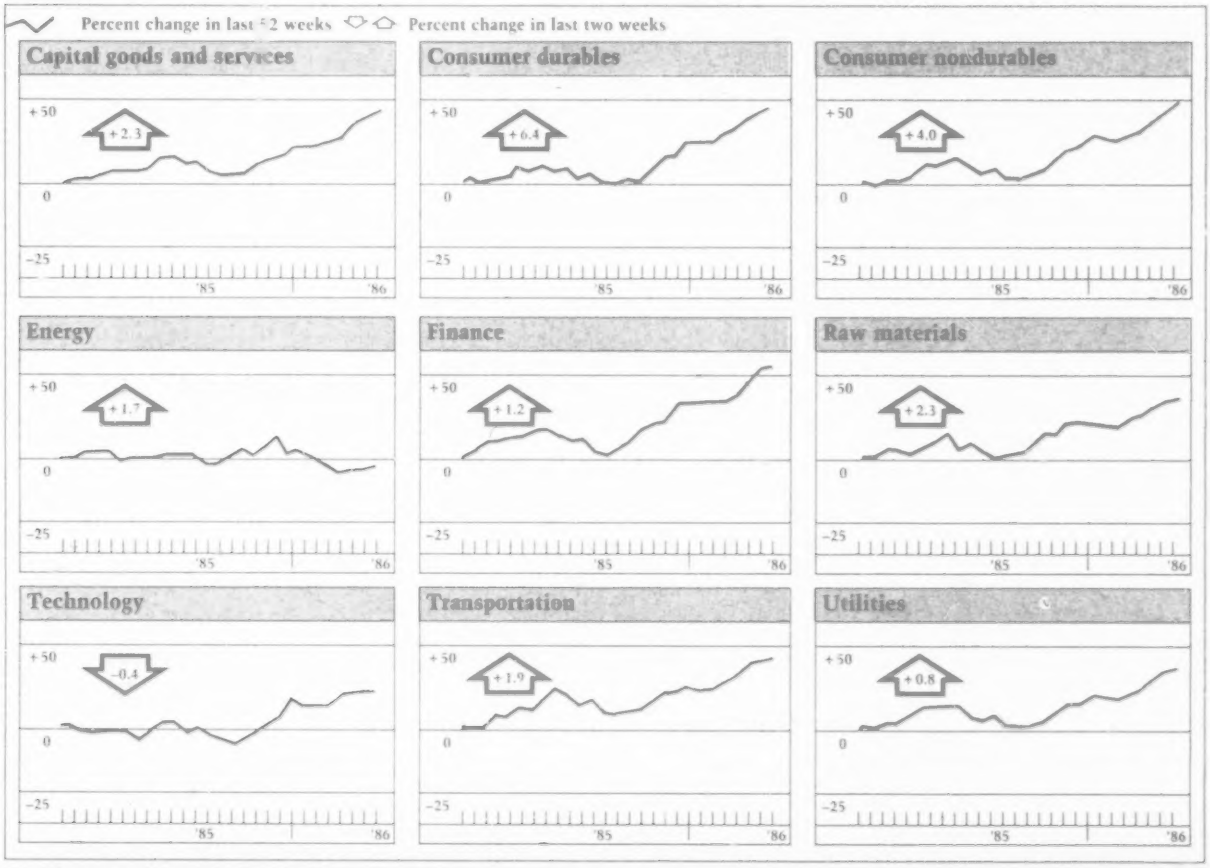
Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	5.5	5.9	6.9	4.3	4.2	7.2	4.5	7.8	5.4	5.9	6.0	8.9
in last 52 weeks	36.4	37.2	59.1	35.2	27.9	45.8	31.0	43.4	48.9	42.4	47.2	22.3

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created.
[2]Based on sales.
[3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 3/28/86. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Yen at work. Leading the consumer durables sector for the last two weeks are Chrysler, Subaru of America (an importer of Japanese autos), Ford and General Motors, with gains ranging from 10% to 18%. The performance of the automotive issues pushed the consumer durables group up 6.4% in the last ten trading days. Quite a surprise, considering what's happening on car lots. Chrysler, Ford and General Motors all reported sharp declines in sales for the latest two weeks. Unsold inventories of American autos are at nearly 2 million units, a near-record amount. Sales incentives are losing their effectiveness. Why has Wall Street ignored these signs? Investors are gambling that U.S. manufacturers will profit handsomely as the stronger yen makes Japanese brands more expensive.



What The Analysts Think

Today and tomorrow. The Forbes Sales 500 are selling at 16.1 times latest 12-month earnings, slightly under the Wilshire multiple of 16.9 for the overall market. But sharply higher 1987 earnings are expected by Wall Street analysts. The 500 stocks are priced at only 10.6 times the 1987 earnings forecast by analysts.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.02	16.1
1986 estimates	4.02	12.1
1987 estimates	4.63	10.6

Rank based on change in estimate	Sector	Estimated 1986 EPS	Estimated 1986 P/E	% change in 1986 estimate in 2 weeks	% change in 1986 estimate in 4 weeks
1	Consumer durables	$4.37	9.7	4.11 %	5.59 %
2	Finance	3.83	11.1	-0.07	0.04
3	Capital goods	2.78	14.5	-0.21	-1.32
4	Raw materials	2.20	14.9	-0.55	-1.18
5	Utilities	3.34	9.4	-0.57	-0.59
6	Technology	2.82	14.1	-1.19	-1.60
7	Transportation	2.53	12.6	-1.55	-2.17
8	Consumer nondurables	2.46	15.7	-1.77	-1.67
9	Energy	2.92	9.8	-7.82	-12.87

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 3/28/86. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.